

Message Text

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ACTION AF-10

INFO OCT-01 NEA-10 IO-13 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DODE-00 PM-05 H-01 L-03 PA-01 /122 W
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R 201150Z APR 78
FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC 7151
INFO AMEMBASSY BONN
AMEMBASSY CAIRO
AMEMBASSY ABU DHABI
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
USMISSION GENEVA
USMISSION USUN NEW YORK

C O N F I D E N T I A L KHARTOUM 1786

DEPT PASS AID

E.O. 11652: GDS
TAGS: EAID, ECON, SU
SUBJECT: FRG FINANCIAL AID TO SUDAN

1. FRG/SUDAN PROTOCOL ON FINANCIAL AND TECHNICAL COOPERATION
FOR 1978 WAS SIGNED IN KHARTOUM ON APRIL 18, IT PROVIDES
FOR DM 80 MILLION IN PROGRAM AND PROJECT ASSISTANCE AND
DM 33 MILLION IN TECHNICAL ASSISTANCE PLUS OTHER ITEMS IN
1978. THIS AGREEMENT IS OF MORE THAN ROUTINE INTEREST
BECAUSE IT ENCOMPASSES SOME NEW AID POLICY DEPARTURES BY
FRG AND DETAILS OF AID NEGOTIATION/APPROVAL PROCESS ARE
ANOTHER INDICATION OF SUDAN'S CRITICAL BALANCE OF PAYMENTS
SITUATION.

2. THIS IS FIRST FRG ASSISTANCE AGREEMENT WHERE ALL ASSISTANCE
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IS PROVIDED ON GRANT RATHER THAN LOAN BASIS AND, IN THIS
RESPECT, FRG IS MOVING IN SAME DIRECTION AS USG IN TERMS
OF ASSISTANCE TO "POOREST OF THE POOR." HOWEVER, THE
AGREEMENT ALSO INCLUDES LANGUAGE ON DEBT FORGIVENESS
WHICH WAS ORIGINALLY INCLUDED IN THE FRG AT THE UNCTAD
MINISTERIAL MEETING IN GENEVA ON MARCH 9, 1978 TO THE
EFFECT THAT "AS REGARDS THE PAST, THE FEDERAL GOVERNMENT

IS FURTHERMORE PREPARED TO CONSIDER CONVERTING ODA LOANS FOR LEAST DEVELOPED COUNTRIES INTO GRANTS, ON A CASE BY CASE BASIS." AFTER RESTATING THIS POSITION, THE FRG/SUDAN AGREEMENT CONTINUES: "THE GOVERNMENT OF THE DEMOCRATIC REPUBLIC OF THE SUDAN WILL SUBMIT THE NECESSARY REQUESTS FOR THE CONVERSION OF OLD LOANS INTO GRANTS TO THE GOVERNMENT OF THE FEDERAL REPUBLIC OF GERMANY IN DUE COURSE." FRG AMBASSADOR TOLD US THAT FORGIVENESS OF ALL PAST ODA ASSISTANCE NOW SIMPLY A FORMALITY.

3. HOWEVER, BECAUSE OF FRG REQUIREMENT THAT ALL PAYMENTS ON PAST LOAN OBLIGATIONS MUST BE CURRENT BEFORE NEW AGREEMENTS BE SIGNED OR DISBURSEMENTS MADE UNDER OLD AGREEMENTS, SUDAN HAD TO TAKE EXTRAORDINARY MEASURES TO MAKE VERY SMALL PAYMENT OF OVERDUE AMOUNT OF DM 8 MILLION WHICH THREATENED CURRENT DISBURSEMENTS AND SIGNING OF NEW VERY GENEROUS AGREEMENT. SUDAN ONLY WAS ABLE TO MAKE DM 8 MILLION PAYMENT BY SECURING LOAN OF SIMILAR AMOUNT FROM WEST GERMAN BANK WITH TIES TO SUDAN CONDITIONED UPON REPAYMENT FROM NEW FRG DISBURSEMENTS. NEW AGREEMENT WITH COMMITMENTS FROM EARLIER AGREEMENTS MEANS THAT THIS YEAR SUDAN WILL BE ABLE TO DRAW TOTAL OF DM 217 MILLION IN ASSISTANCE. THIS ALMOST DIDN'T TAKE PLACE BECAUSE OF INABILITY TO MAKE DM 8 MILLION PAYMENT; (COMMENT: AS WE HAVE PREVIOUSLY REPORTED IT IS DIFFICULT TO EXAGGERATE SERIOUSNESS OF SUDAN'S BOP SITUATION DESPITE CONTINUING LARGE PROJECT

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ASSISTANCE, INVESTMENT AND MILITARY PURCHASE FLOWS.)

4. UNLIKE MOST DONORS WHO HAVE SWITCHED FROM PROGRAM TO PROJECT ASSISTANCE, FRG CONTINUES TO PROVIDE SIGNIFICANT PROGRAM ASSISTANCE IN THEIR COMMODITY IMPORT PROGRAM. DM 80 MILLION TOTAL IS EQUALLY SPLIT BETWEEN PROJECT AND COMMODITY AID. FIFTY PERCENT OF COMMODITY AID IS TIED TO WEST GERMAN PROCUREMENT. HOWEVER, GERMAN AMBASSADOR ADMITTED TO ECONCHIEF THAT PAST PRACTICE HAS INDICATED THAT ALMOST ALL PROCUREMENT FROM NON-TIED PORTIONS OF COMMODITY AID TO SUDAN HAS BEEN FROM GERMAN SUPPLIERS.

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